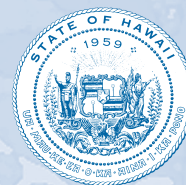


Holomua



Employees' Retirement System
of the State of Hawaii
Working to fulfill your retirement dreams...



2013 Legislative Update

The 2013 Hawaii State Legislature passed three bills related to the ERS and all three were signed by into law by Governor Abercrombie. Summaries of the legislation are noted below. For more information on these and other legislation, you may visit the State Capitol website at www.capitol.hawaii.gov.

Act 124 (H.B. 805): Relating to Federal Tax Qualification of the Employees' Retirement System - Effective: June 14, 2013

The ERS is a tax-exempt, qualified retirement plan under section 401(a) of the Internal Revenue Code (IRC). Compliance with the requirements of the IRC allows for favorable tax treatment of member contributions and does not require members to pay federal income taxes on the present value of their accrued vested benefits. In order for the System to retain its tax-qualified status, this Act proposes two mandatory amendments: (1) to reinforce the benefit limitations imposed by the Internal Revenue Code, and (2) to clarify vesting rules for the accrued retirement benefits for ERS members. Both amendments are technical clarifications to the existing ERS statutes and do not change requirements or benefits provided by the ERS.

Act 123 (H.B. 808): Relating to the Employees' Retirement System and Civil Unions - Effective: June 14, 2013

In order to maintain its tax-qualified status (see Act above), the ERS must comply with certain federal tax law requirements that specify when civil union partners are not considered "spouses" under federal law. This Act amends three areas: (1) the right to a 100% joint survivor benefit when a civil union partner beneficiary is more than a specified number of years younger than the retiree, (2) the right to defer death benefits, and (3) preferential rollover rights for lump sum payments. Civil union partners would still have the rights accorded to spouses under the portions of the ERS statutes that are not restricted by the IRS Code. This Act also adds a new section to ERS chapter 88 to confirm that marital and spousal terms are inclusive of civil unions and civil union partners, unless to do so would jeopardize the tax-qualified status of the ERS. (Note: Due to the June 26, 2013 U.S. Supreme Court ruling on the Defense of Marriage Act, portions of this summary may be dated.)

Act 124 (S.B. 1036): Relating to Employees' Retirement System Personnel - Effective: July 1, 2013

As successful investment of the ERS fund is one of the foundations to the longevity and stability of the system, this Act allows the ERS Board of Trustees, through its administrator, to appoint investment officers for the ERS investment office. The ERS currently has over \$12 billion in assets and an unfunded liability of \$8.4 billion. The investment office and new investment officers would assist and advise the ERS Board with critical information needed to structure the ERS investment portfolio to meet its asset goals and reduce the System's unfunded liability. Also, to be consistent with other government agencies and public pension plans, this Act changes the title of the ERS "Administrator" to "Executive Director".

Upon revision of Chapter 88, Hawaii Revised Statutes, due to this new legislation, updated sections will be available on our website at <http://ers.ehawaii.gov>. For specific questions on current legislation, you may call our office at (808) 586-1735.

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Wes' Corner



The 2013 Legislative session is over and the ERS initiated bills have passed (with one exception). As a result of the budget bill passing, we are now able to increase our Investment Office from 3 to 6 investment professionals. Although it will take some time to establish and recruit for the 3 additional positions, we are excited that our Investment Office will have more resources to oversee the \$12 billion-plus ERS investment portfolio. (It is interesting to note that public pension funds of our size usually have about 8 – 12 investment professionals.) The other bills that passed were to comply with the Internal Revenue Code and protect the ERS's tax-exempt status that affords favorable tax treatments for ERS members.

We are hopeful that the investment markets will continue to move positively. So far the first 5 months of 2013 have given us a return of about 8%. If this continues, the ERS should report double-digit investment returns for the 2013 fiscal year, which will have a positive impact on the ERS unfunded liability as of June 30, 2013.

Our schedule for filing sessions throughout the rest of the 2013 calendar year is on the ERS website. For those who are planning to file for retirement in the second half of this calendar year, please make sure to attend one of our filing sessions. We also encourage you to visit our website and read all the material pertinent to your retirement. Anyone considering other employment outside of State and county government should visit our website and contact us before making a decision. It's important that you know what you may be giving up should you decide to leave State or county government.

We should have more information in our next newsletter on any changes at the ERS. Until then, I hope that you are having a healthy and happy 2013.

Aloha,
Wes Machida

City Financial Tower - ERS Renovation and Building Investment

The main ERS office is located on the 14th floor of the City Financial Tower (CFT) at 201 Merchant Street. As many of you are aware the CFT is one of the real estate investments of the ERS as part of its diversified investment portfolio. However, since Suite 1400 was not large enough to accommodate the full ERS workforce comprised of Administration, Benefits, Accounting, Investments and Information Technology staff as well as the System's dedicated computer equipment, we also occupied parts of the 9th and 16th floors over the past few years.

We and our property managers found that there was much more interest in leasing the 9th and 16th floors of the CFT than the long-vacant 2nd and 12th floors. So in order to maximize this building's occupancy and its value as income property, the ERS made the decision to renovate and relocate our offices to take advantage of this opportunity. Floors were renovated to accommodate the ERS staff and systems from February through May 2013. Staff and equipment movement was completed at the beginning of June. We hope that you experienced little or no disruption in services during this period.

Suite 1400 on CFT's 14th floor will continue to be the ERS main office and all members and visitors should continue to report there for all ERS services.

Annual post-retirement increase set for July 2013

All qualified retirees who retired prior to 2013 and beneficiaries will receive their annual post-retirement (PR) increase in July. The PR increase is 2.5% of your base pension amount. Eligible semi-monthly and monthly payees will receive their PR increases on July 15 and July 31, 2013, respectively.

If there is a change to your pension amount, you will also receive your annual Statement of Retirement Allowance and Deductions Statement. As you may recall, the payment statement is generated only when there is a change to the pension amount, and shows the gross payment amount and authorized deductions being withheld as well as the net payment amount. Please confirm the net payment amount with the statement from your financial institution before contacting ERS about any pension amount discrepancies.

Again, the ERS would like to remind you to provide us with any changes to your mailing address as the annual Statement and other important information is mailed directly to the address on file. If you need to make an address change, you may contact the ERS by phone or access the address change form at our website by clicking on "Pension Forms" under the "Retirees" tab. For more information on the PR increase, check out our "Ask ERS" section at the end of this newsletter.

Report from Vijoy Chattergy, Chief Investment Officer

Aloha Kakou. In the last Holomua newsletter, I introduced the idea that the Investment Office operates like a factory that applies “earned experience” to “turn” information into high quality investment returns. If the analogy were true, we could be very pleased that recent strong performance is evidence of the “factory” operating at high capacity. Stock fund managers for the ERS have benefited from a mediocre but positive growth environment, while bond fund managers invested in securities that outperformed low interest rate government bonds that dominate the benchmark indexes. A couple of real estate managers sold properties in high demand, generating excess returns for the ERS. Brilliant interpretation of information led to positive absolute and relative returns. End of story.

Well, not exactly. In contrast to the production of many physical goods, the production of investment returns is highly suboptimal and entails interpretation, discounting, and elimination of vast amounts of raw materials (i.e., information) to create investment strategies and develop narratives to “explain” results. This is intended as a factual statement, not a value judgment. The information left on the “factory floor” is often contrarian, insightful, and compelling. If the primary investment thesis ends badly, the information left behind might be reassembled to provide an alternative explanation.

But why add this complication to the pristine concept of the Investment Office Factory? With current market conditions favorable, it is the perfect time to reaffirm the notion that with all the earned experience in the world, investment results may not turn out as expected. This uncertainty or variability around the returns produced by the Investment Office relates to the concept of “investment risk.”

Management of investment risks in the ERS portfolio is an important task of the Investment Office. Risk management is just as important as generating investment return. In fact, risk and return are very much two sides of a single coin. To target an expected return objective, we implicitly accept a level of risk. To accept risk (i.e., anything beyond hiding cash under the mattress), we implicitly anticipate some expected return.

Investment return is relatively simple to understand as a dollar or percentage change in value of assets from the previous period. However investment risk and investment risk management are concepts that are more complicated, nuanced, and varied. This is possibly the investment version of the *Anna Karenina* principle which famously starts Tolstoy’s novel, “Happy families are all alike; every unhappy family is unhappy in its own way.”

Unhappy Investment Office Factories define risk in a number of different ways, including permanent loss of capital, negative returns, returns below a benchmark, unexpected events, uncertainty (as in volatility or standard deviation), etc. Risks can also be differentiated as systematic and unsystematic. Systematic risks are risks that must be accepted, similar to how certain levels of air pollution are taken as given in an urban setting. Unsystematic risks pertain to particular sources that can be minimized, similar to how car exhaust pollution can be minimized through design and regulation. Additionally, the Investment Office should consider ERS plan-wide risks such as meeting pension obligations and unfunded liabilities.

Practically speaking, the ERS Investment Office must recognize risk management as the equal of return performance. Just as there is a return requirement, there should be target risk parameters, both at the portfolio level and with the individual fund managers and investments. Delineation of responsibilities for the identification and mitigation of risks should be established. Going forward, we expect to hire a full-time risk manager to work side-by-side with soon-to-be-hired investment analysts. As the shop floor of the Investment Office Factor begins to buzz with activity, everyone will be focused on the twin objectives of achieving long-term expected returns with acceptable levels of risks.



Getting Your Affairs in Order

In the event of your death, your survivors need to be ready for the important decisions they will have to make. Here's how you can help them be better prepared:

- Review your finances with your loved ones. Make sure they are aware of where your assets and documents are kept. Include your children in this review if any of the money matters involve them.
- Inform your beneficiaries that ERS death benefits (including continuing monthly benefits) will only be processed in the month after we have received all of the necessary forms and documents. Make sure we have correct and current addresses for your beneficiaries.
- Discuss funeral and burial options, and let your family know what you prefer or what arrangements you have already made.
- See an attorney and have your Will or Trust prepared.
- Become familiar with and complete advance directives, such as a power of attorney, a living will, or a health care proxy and do-not-resuscitate orders.
- Set up a file in a designated place at home listing all your records, certificates, names and phone numbers of helpful contacts and other important information. Here is a checklist to get you started:
 - o Personal documents — passport, birth certificate, Social Security information, marriage certificate, divorce decree, military discharge papers, naturalization papers, your will and that of your spouse or other loved ones, adoption papers and burial instructions.
 - o You should not place burial instructions or your will in your safe deposit box because the box may be sealed when you die. Any items kept in it, including your will and burial instructions, will not become available until a probate judge orders the box to be opened under court supervision. However, a joint lessee of the box or someone specifically authorized by you would be permitted to open the box to examine and copy your burial instructions.
 - o Retirement and death benefit information — copies of final retirement benefit statements and beneficiary designations; the website, phone number and address of the Employees' Retirement System; deferred compensation information, and documents for other pensions (TIAA-CREF, federal, military or private plans) for which you may be eligible.
 - o Income tax information — copies of both state and federal income tax returns for the last two years.
 - o Property tax information — copies of tax bills, deeds, liens and other related information.
 - o Insurance policies — life, auto, homeowners, property, accident, liability and hospitalization policies.
 - o Bank accounts — include locations of all checking and savings accounts, CDs, safe deposit boxes, savings bonds, stocks, bonds and any other securities.
 - o Credit cards — account numbers, phone numbers and addresses.
 - o Contact information for associations and organizations of which you are a member — some of them may be able to assist your survivors.
 - o Contact information for friends and business associates who could be helpful. Also include names and numbers of your attorney, accountant, personal banker, stockbroker, financial planner, insurance agent and executor of your will.

Having all of this information organized and accessible now can help make things easier and less stressful for your survivors when the time comes.

News from the EUTF

News from the Hawaii Employer-Union Health Benefits Trust Fund (EUTF)

Some helpful reminders for retirees:

- If you became eligible for Medicare Part B premium reimbursement on or after July 1, 2006, you are required to direct deposit your Medicare reimbursements to a financial institution of your choice (provided that your bank account is located in the United States).
- If you are currently receiving your Medicare Part B reimbursement via check, you should switch to direct deposit. It is quicker and safer. Visit the EUTF website at www.eutf.hawaii.gov to print a Direct Deposit Agreement (DDA) Form or call the EUTF at 586-7390 or toll-free at 1-800-295-0089 to have a DDA form mailed to you.
- Every January the Medicare Part B premium reimbursement is reset to the standard amount, which is \$104.90 for 2013. If you pay a higher income-related Medicare Part B premium, EUTF will reimburse you the additional premium. However, you must submit to the EUTF, a copy of the letter from the Social Security Administration (SSA) showing your income-related premium (EUTF does not reimburse for penalties). EUTF reimburses you quarterly for the cost of your Medicare Part B plan.
- If you are retired and turning 65 years old or your dependent is turning 65 years old, or you will be retiring soon and are already 65 years or older, you and your Medicare eligible dependent must enroll in Medicare Part B to be enrolled in the EUTF and HSTA VB retiree medical and/or prescription drug plans. To enroll in Medicare Part B contact the Social Security Administration toll-free at 1-800-772-1213. You are not required to enroll in Medicare Part B if you are only enrolled in the retiree dental, vision, and/or life insurance plans.
- As a reminder, enrollment in a Medicare prescription drug plan is limited to one Medicare plan only and is regulated by the federal Centers for Medicare and Medicaid Services (CMS). If you enroll into a non-EUTF Medicare prescription drug plan CMS automatically disenrolls you from the EUTF Medicare prescription drug plan and you will not be eligible to re-enroll in the EUTF plan until the next open enrollment period held in the fall of every year. HSTA VB retirees who are disenrolled from the EUTF HSTA VB Medicare prescription drug plan will also be disenrolled from the HSTA VB medical, vision and chiropractic plans because the plans are bundled.
- Please be sure EUTF has your current address and phone number.

Important: The EUTF is a separate organization from the ERS. If you have any questions about information in this article, please **DO NOT** contact ERS. Please contact the EUTF directly at 586-7390 or toll-free at 1-800-295-0089, or email the EUTF at eutf@hawaii.gov. You can also visit our website for more information @ www.eutf.hawaii.gov.



Employees' Retirement System

of the State of Hawaii

Working to fulfill your retirement dreams...

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Scan the QR code with your smartphone
to directly access the ERS website.

Holomua

Retirees

April/May/June 2013

Ask ERS

Answers to some frequently asked questions:

Q: Due to the post retirement (PR) increases, when will I receive my Statement of Retirement Allowances and Deductions (Statement)?

A: For retirees and beneficiaries who receive a semi-monthly and monthly pension, your Statement will be mailed out on July 12, 2013 and July 30, 2013, respectively. You should also check your bank statement to verify the amount deposited.

Q: Will the PR increase impact my federal tax withholding?

A: Probably. When you receive a post-retirement increase, your gross pension would increase as well as your reported income for federal tax purposes. If you wish to change your tax withholding you may complete the Form W- 4P Withholding Certificate for Pension or Annuity Payments which is located on our website.

Q: Do all retirees and beneficiaries receive a PR increase on July 1, 2013?

A: No. If you retired in 2013, you would have to wait until July 1, 2014 for your first PR increase.

How to Contact Us

Monday-Friday 7:45 a.m. - 4:30 p.m.
(except State holidays)

Oahu Office, Phone: (808) 586-1735

Kauai Office, Phone: (808) 274-3010

Hawaii Office, Phone: (808) 974-4077

Maui Office, Phone: (808) 984-8181

Molokai & Lanai, toll free to Oahu:
1-800-468-4644

Continental U.S. toll free to Oahu:
1-888-659-0708